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**FISCAL IMPACT STATEMENT**

**LS 7752**

**BILL NUMBER:** SB 422

**NOTE PREPARED:** Feb 6, 2003

**BILL AMENDED:** Feb 6, 2003

**SUBJECT:** Tax Provisions.

**FIRST AUTHOR:** Sen. Borst

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill corrects internal references. The bill separates the provisions related to the making of estimated payments for Adjusted Gross Income Tax from the provisions related to the making of estimated payments for the payment of Utility Receipts Tax. The bill also exempts any part of a Lottery prize won before July 1, 2002, but paid after July 1, 2002, from Adjusted Gross Income Tax.

The bill adjusts the method of calculating the Utility Receipts Tax for a taxpayer with a taxable year that is not a calendar year. A taxpayer with a taxable year that is not a calendar year is required to file a final return for the taxpayer's liability under the Supplemental Net Income Tax by the fifteenth day of the fourth month after the close of the taxpayer's regular taxable year. The bill changes the method of calculating the tax due and specifies that a credit against Adjusted Gross Income Tax for Gross Income Tax paid for the year 2002 applies to Adjusted Gross Income Tax returns filed for any part of a taxable year that includes the year 2002.

**Effective Date:** July 1, 2002 (retroactive); January 1, 2003 (retroactive).

**Explanation of State Expenditures:** The Department of State Revenue (DOR) will need to develop tax forms and procedures to reconcile the changes made due to P.L. 192-2002(ss) and this bill. This will be done within DOR's current budget.

**Explanation of State Revenues:** This bill addresses some transitional and technical issues due to the restructuring of corporate income taxes contained in P.L. 192-2002(ss).

The bill specifies how taxpayers subject to the Utility Receipts Tax (URT) will make estimated payments and penalties associated with the underpayment of these taxes. It also adjusts the method to calculate URT

for taxpayers who operate on a non-calendar tax year.

The bill clarifies that Lottery winnings from tickets bought before July 1, 2002, but paid after June 30, 2002, are exempt from income taxes. This technical clarification will have no fiscal impact.

The bill specifies how a non-calendar year taxpayer will estimate their 2002 tax liability for the Supplemental Net Income Tax (SNIT) and Gross Income Tax (GIT) which were repealed in P.L. 192-2002(ss) effective January 1, 2003. The fiscal impact should be minor in that the tax that would be due will still be paid, but in the case of SNIT, the final liability might be slightly less or more depending on the taxpayer's business cycle.

*Background:* The bill will allow a taxpayer to calculate their final SNIT liability from actual adjusted gross income (AGI). Current law requires the taxpayer to estimate their AGI or report an AGI that might have been significantly higher on December 31 than it would be for the entire year. For example, a fiscal year farmer with tax year starting on September 1 might get paid for their crops in the fall and would have a high adjusted gross income amount because they have not purchased the seed or supplies until the spring. Under current law, they would be required to pay a significant amount of SNIT liability that would be more than what the full fiscal year amount would be. The bill allows a final SNIT return to be filed before the 15<sup>th</sup> day of the fourth month following the close of the taxpayer's taxable year. This would resolve tax and estimated penalty problems when a non-calendar year taxpayer has income and expenses which are unevenly divided throughout two calendar years affected by the short taxable year established by P.L. 192-2002ss.

The bill permits the taxpayer to take a credit for Gross Income Tax paid against the Adjusted Gross Income Tax (AGIT) for that part of the taxable year that occurs before January 1, 2003. The AGIT tax will be prorated based on the number of days in the fiscal year that are during 2002. The taxpayer will pay the greater of the GIT versus AGIT for 2002 and then will pay the AGIT at 8.5% prorated by the number of days in 2003.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** Tom Conley, Department of State Revenue, 317-232-2107.

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